

Transport Corporation of India Ltd: Visit Note

CMP: INR 214

We recently met the management of Transport Corporation of India Ltd (TCI). Gradual recovery in the domestic economic activity is expected to drive revenue growth across the company's three key segments viz., Freight, Supply Chain Solutions and Express Cargo. The management has guided for a topline growth of 10-15% in FY15 (4.6% in FY14). The margins are also expected to expand owing to pass through of diesel price increase to customers and increased business volumes across segments. The management indicated that the proposed GST rollout will have a positive impact on the logistics industry, due to increase in large-scale goods movement, though implementation of GST & actual impact of the same may take time. The company is planning an investment of approx. INR 350 cr over FY15-16, of which ~INR 275 cr will be in FY15. The proposed investment will largely be in Supply Chain (for warehouses) and Seaways business, which are expected to support growth over the next 4-5 years. At the current market price of INR 214, the stock is trading at 22x FY14 EPS.

Margin expansion likely in freight business; recovery in volumes still modest

The company's EBITDA margins in the Freight business (37% of FY14 revenues) had declined from 4.0% in FY12 to 1.8% in FY14. The company was not able to pass on the sharp rise in diesel prices to customers owing to unfavourable market conditions (low business volumes & high competitive intensity). The decrease in volumes from over dimensional cargo (ODC) movement (a relatively high-margin sub-segment) due to infrastructure bottlenecks also impacted the segment's margins.

The company is now passing on the diesel price increases to customers by renegotiation of rates and the management expects margins to recover to 3.0-3.5% by Q4 FY15. However, it has indicated that recovery in the freight movement and utilisation levels are still modest and will track incremental improvement in GDP growth going forward. The management expects ~5% growth in revenues in the freight business.

Recovery in Auto industry to drive growth in supply chain business

In the Supply Chain business (31% of FY14 revenues), nearly 70% of the revenues are driven by the Auto sector. The downturn in the industry impacted goods movement in the Supply Chain business, leading to a tepid 3% growth in FY13. Going forward, the company expects recovery in the Auto sector to drive 18-20% growth in the Supply Chain business. It has over 300-350 customers in the Supply Chain segment (including Auto, FMCG and others) and caters to nearly all major Auto OEMs in India.

Express business to benefit from e-commerce in long-term

The customer base (currently 4,000) is increasing at 20% CAGR, which is expected to drive growth in the Express Cargo business (27% of FY14 revenues). Apparels, Pharma and Electronic Goods account for nearly 50% of the segment's revenues. The management expects this segment to grow at 18-20% CAGR over the next two years. The company currently generates <5% of the segment's revenues from e-commerce, as it is present in the movement of large white goods such as TVs, Refrigerators etc, which are still not popular on the e-commerce platform. The management expects that in future, growing customer preference for buying large white goods online will drive growth for the company in the long term.

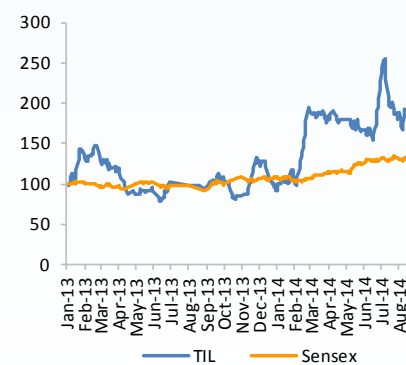
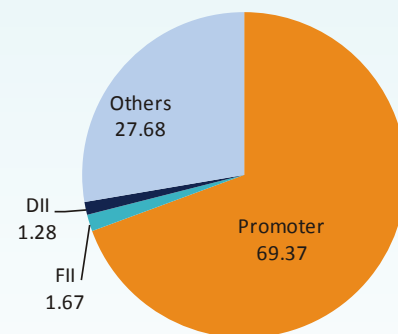
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Bloomberg:	TRPC:IN
52-week range (INR):	258 / 46
Share in issue (Crs):	7.3
M cap (INR crs):	1,606
Avg. Daily Vol. BSE/NSE :	206,000

SHARE HOLDING PATTERN (%)

Date: 24th September 2014

Addition of ship in seaways business to drive revenues for the segment

The company currently has 4 ships with total capacity of 17,500 DWT, which generate revenues of around INR 107 cr and RoCEs of 35%. It plans to add another ship of 11,200 DWT by Q2FY15 at a cost of INR 65 cr. At full utilisation level, the new ship can generate another INR 90-100 cr revenues with 25-30% EBIT margins, translating into RoCE of ~35%. The company operates on east coast (mainly Port Blair sector) and plans to expand to the west coast of India.

Changing business mix to drive RoCE expansion in long-term; but will be suppressed in near-term due to capex

Faster growth in high RoCE businesses like supply chain (RoCE: 23-25%), express cargo (RoCE: 45-50%) and seaways business (RoCE: 35%) is expected to boost overall RoCEs (currently at 15-16%) in the long term. The share of these three businesses is expected to rise from 63% in FY14 to 80%+ over the next five years. However, the company is investing INR 350 cr over FY15-16 in supply chain (warehousing), coastal shipping and express cargo business, which will suppress the RoCEs in the near term. The company plans to fund the capex through a mix of debt, equity and internal accruals. The net debt-to-equity ratio stood at 0.7X as on FY14-end, which is currently at a comfortable level.

GST to benefit integrated logistics players; but implementation will take time

The introduction of GST is expected to lead to a true hub-n-spoke logistics model in the country, with increase in large-scale movement of goods which will benefit multi-modal logistic players. Moreover, reduction in hassles related to octroi and various other state-level taxes is expected to improve efficiency of operations. However, the management has indicated that implementation of GST and its effect on the company's operations may take time to materialise.

Segment	Revenues FY14 (INR crore)	FY10-14 CAGR	EBITDA Margins FY14	EBITDA margin FY10-FY14 average	Capital employed (FY14)	RoCE (FY14)
Freight	831	4%	1.8%	3.7%	192	3.1%
Express cargo	601	12%	8.0%	8.5%	92	47.6%
Supply chain	699	28%	10.9%	11.9%	218	22.9%
Seaways	114	7%	25.5%	19.3%	83	29.7%
Others	34	-4%	13.5%	7.4%	-17	-9.7%
Intersegment /unallocated	-32				207	
Total	2,246*	11%	7.7%	8.0%	775	16.3%

Source: Company, Edel Invest Research

Financial Statements					INR Crs
Year to March	FY10	FY11	FY12	FY13	FY14
Revenues	1,524	1,855	1,956	2,132	2,229
Freight & transportation cost	988	1,221	1,258	1,423	1,493
Other operating expenses	236	288	33	323	340
Employee costs	83	93	102	112	117
SG&A	338	394	437	420	446
EBITDA	115	147	160	177	172
Depreciation & Amortization	30	35	42	46	47
EBIT	85	112	118	131	126
Other income	2	1	2	4	6
EBIT incl. other income	87	113	120	135	132
Interest expenses	22	28	36	35	33
Extraordinary income/ (loss)	(0)	(3)	2	1	(0)
Profit before tax	65	82	85	101	99
Provision for tax	24	27	26	32	27
Minority interest	-	(0)	(0)	0	0
Reported PAT	42	55	59	69	72
Extraordinary income/ (loss)	1	3	0	0	0
Adj. PAT	41	52	59	69	72
Basic shares outstanding (crs)	7.3	7.3	7.3	7.3	7.3
EPS (Rs.)	5.8	7.9	7.9	9.4	9.8
Dividend per share (Rs.)	0.9	1.0	1.1	1.5	1.8
Dividend payout (%)	17%	15%	15%	19%	22%

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13	FY14
Freight & transportation cost	64.9%	66.0%	64.4%	66.8%	67.1%
Other operating expenses	15.5%	15.5%	1.7%	15.1%	15.3%
Employee costs	5.5%	5.0%	5.2%	5.3%	5.3%
SG&A	6.7%	5.7%	20.7%	4.6%	4.8%
EBITDA margins	7.5%	7.9%	8.2%	8.3%	7.7%
Depreciation	1.9%	1.9%	2.1%	2.2%	2.1%
EBIT margins	5.6%	6.0%	6.0%	6.1%	5.6%
Adj profit margins	2.8%	3.1%	2.9%	3.2%	3.2%
Reported PAT margin	2.7%	3.0%	3.0%	3.3%	3.2%

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13	FY14
Revenues	12.2%	21.7%	5.5%	9.0%	4.6%
EBITDA	9.0%	27.9%	8.9%	10.9%	-2.7%
PBT	27.4%	25.7%	4.0%	18.6%	-1.7%
Adj profit	26.0%	36.9%	-0.1%	19.2%	4.6%
Reported profit	24.8%	31.6%	7.9%	17.5%	3.2%

Balance sheet					INR Crs
As on 31st March	FY10	FY11	FY12	FY13	FY14
Equity capital	15	15	15	15	15
Reserves & surplus	320	311	364	422	476
Borrowings	285	315	341	354	335
Minority interest	5	3	3	1	3
Other long-term liabilities	-	-	0	1	2
Sources of funds	624	643	722	793	831
Gross Block	493	528	622	652	693
Accumulated Depreciation	(157)	(183)	(206)	(234)	(262)
CWIP	15	7	8	5	18
Net Fixed Assets	351	353	424	422	450
Investments	4	2	2	8	8
Inventories	1	1	2	2	2
Sundry debtors	264	321	336	395	380
Cash and equivalents	38	18	31	46	43
Loans and advances	113	97	67	65	65
Total current assets	416	438	437	508	489
Sundry creditors and others	76	86	97	99	95
Provisions	41	31	23	42	41
Total current liabilities & provisions	117	118	120	140	136
Net current assets	299	320	317	368	353
Deferred tax assets	(30)	(31)	(32)	(31)	(33)
Other long-term assets	-	-	11	24	53
Uses of funds	624	643	722	791	831
Book value per share (Rs.)	46.2	44.8	52.0	60.0	67.3

Free cash flow					
Year to March	FY10	FY11	FY12	FY13	FY14
Net profit	46.6	52.7	58.4	74.6	71.3
Add : Depreciation	29.6	35.3	41.6	46.4	46.8
Others	-1.7	1.4	31.5	29.6	25.0
Gross cash flow	74.5	89.4	131.5	150.6	143.1
Changes in WC	-37.2	-39.2	-6.8	-46.2	14.6
Operating cash flow	37.3	50.2	124.7	104.4	157.7
Capex	-55.6	-39.6	-96.7	-60.8	-97.6
Free cash flow	-18.3	10.5	28.0	43.7	60.1

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13	FY14
Cash flow from operations	37.3	50.2	124.7	104.4	157.7
Cash Flow from investing activities	-55.6	-39.6	-96.7	-60.8	-97.6
Cash Flow from financing activities	28.0	-30.5	-15.5	-28.4	-63.3
Capex	-39.4	-85.8	-110.6	-44.1	-74.1
Dividends	-6.2	-6.9	-6.9	-7.9	-11.9

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13	FY14
ROAE (%)	13%	17%	16%	17%	15%
ROACE (%)	14%	18%	17%	17%	15%
ROIC (%)	12%	14%	15%	14%	13%
Inventory day	0	0	1	1	0
Debtors days	63	63	63	68	62
Payable days	28	26	28	25	23
Cash conversion cycle (days)	62	59	53	55	51
Current ratio	3.2	3.6	3.4	3.3	3.3
Debt/Equity	0.9	1.0	0.9	0.8	0.7

Operating ratios

Year to March	FY10	FY11	FY12	FY13	FY14
Total asset turnover	2.6	2.9	2.9	2.8	2.7
Fixed asset turnover	3.2	3.6	3.4	3.3	3.3
Equity turnover	4.8	5.6	5.6	5.2	4.8

Du pont analysis

Year to March	FY10	FY11	FY12	FY13	FY14
NP margin (%)	2.8%	3.1%	2.9%	3.2%	3.2%
Total assets turnover	2.6	2.9	2.9	2.8	2.7
Leverage multiplier	1.9	1.9	1.9	1.9	1.8
ROAE (%)	13%	17%	16%	17%	15%

Valuation parameters

Year to March	FY10	FY11	FY12	FY13	FY14
Diluted EPS (Rs.)	5.8	7.9	7.9	9.4	9.8
Y-o-Y growth (%)	26.0	36.7	-0.3	19.0	4.5
Diluted PE (x)	37.5	27.4	27.5	23.1	22.1
Price/BV (x)	4.7	4.8	4.2	3.6	3.2
EV/Sales (x)	1.2	1.0	1.0	0.9	0.8
EV/EBITDA (x)	16.3	12.8	11.7	10.6	10.9
Dividend yield (%)	0.4	0.4	0.5	0.7	0.8

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